

## INFORMATION REPORT INFORMATION REPORT

## CENTRAL INTELLIGENCE AGENCY

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Government of the  
German Democratic Republic  
State Central Administration  
for Statistics of the Council of Ministers

Berlin, 4 February 1958

INSTRUCTIONS FOR THE PREPARATION OF FINANCIAL REPORTS

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These instructions have been prepared by the technical departments of the State Central Administration for Statistics with the support of the Finance Department for the guidance of local organs in the preparation of financial reports. Any questions and/or criticisms should be addressed to the technical departments of the State Central Administration for Statistics.

#### I. The Importance and Purpose of Financial Reporting

The possibility and necessity of regulating the economic activity of socialist enterprises derives from the social (gesellschaftlich) ownership of the means of production and from the planning of the state economy.

Financial reporting is an important tool in regulating economic activity, and is defined as follows: "The prescribed method, scope, and periodicity of transmitting index figures derived from the industrial accounting system, expressed in DM, suitable for controlling the implementation of the plan, and for consolidation in the overall financial statement (Gesamtabrechnung)." (Kresse-Geissler).

Financial reporting facilitates control of the financial section of the state economic plan and enables the central and local organs of the state apparatus to survey the economic processes within their administrative domain. At the same time, the evaluation of financial reports represents an important basis for economic-political measures. For instance, the analysis of the development of production costs in the enterprises, of the report on utilization of the wage fund, and of other entries in the financial reports are fulcrums for the application of certain policies.

The purposes of financial reporting are:

1. Verification of inventories of materials and financial resources.
2. Computation of commodity production
3. Computation of costs and proceeds
4. Computation of production cost reduction (Selbstkostensenkung) and turnover figures
5. Computation of the utilization of the wage fund,

The entries in the financial reports are obtained from the enterprise accounting system (betriebliches Rechnungswesen). The enterprise accounting system reflects the actual economic processes in the enterprise by values (Wertform). The quality of the financial report depends directly upon the quality of the accounting system. The regulations pertaining to financial reporting by the individual economic sectors, and the "Decree Concerning Bookkeeping and Accounting by Nationalized (volkseigene) Industrial Enterprises," dated 29 September 1955, form the legal basis for financial reporting.

As of 1958, the responsibility for financial reporting rests chiefly with the State Central Administration for Statistics. This will result in new and important tasks for the Bezirk and Kreis offices of the State Central Administration for Statistics. The present explanation supplements the guides for Financial Reporting, published by the technical departments (Fachabteilungen). They must be on file at the Kreis offices, and refer to the financial section of the following documents in particular:

1. Guide for the Centrally Administered Nationalized Industries, in the Preparation of Industrial Reports for 1958.
2. Guide for the Nationalized Local Economy - industry/traffic

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3. Report on Construction for 1958
4. Financial Reporting by Nationalized Wholesale Trade Organizations (GHK - Grosshandelskontoren) and Financial Reporting by Nationalized Retail Trade Organizations (HO - Handelsorganisation) (Enclosure to Booklet 3/58 in Ordinances and Communications (Verfuegungen und Mitteilungen) of the Ministry of Trade and Supply).

## II. The Most Important Computations (Relationen) Derived From the Financial Report

### 1. Industry

The State Central Administration for Statistics is faced with new tasks, since the reporting system has been put under central administration. As of 1958, financial reports on nationalized industry, will also be prepared through the statistical apparatus.

As a result, officials (Mitarbeiter) will be interested in turning their attention to the accounting system of the nationalized industry. In this connection we recommend first a study of Pamphlet No 7 of the series entitled Wirtschaftspraxis (Economic Practice), published by the Die Wirtschaft publishing house in Berlin. This pamphlet contains an outline of the accounting system of the nationalized industrial enterprises with explanatory text and contains instructions for accounting methods. Also recommended is the study of the regulation governing the accounting methods and accounts reporting by nationalized industrial enterprises, dated 29 September 1955, in Part I of GBL (Gesetzblatt, Legal Gazette) No. 92, of 31 October 1955. The Accounting System of Industrial Enterprises -- Introduction, by Kresse-Geissler, published in 1957 by Volk und Wissen, Berlin, presents a good survey of the enterprise accounting system.

The following is designed to help officials of the statistical apparatus understand the economic relationships and financial techniques which underly the specified computations. Questions concerning any uncertainties on their part, or suggestions which refer to financial reporting should be directed to the Central Office, Main Department for Industry.

The financial reporting system contains the most important index figures of the financial activities of enterprises. An enterprise can fulfill its financial tasks only if its products meet the necessary quality requirements, and if it sells them as well. For instance, while the amount of a product manufactured is of prime interest in reports on production, the amount of a product which has been sold (Line 1: Proceeds from the sale of goods produced) (Absatz der Warenproduktion) forms the starting point for financial reporting. The sale of products directly determines whether

- (a) the means used by the enterprise for the manufacture of its products will flow back;
- (b) the centralized net income, in the form of production taxes will flow into the state budget;
- (c) the enterprise will be able to realize a profit.

If the enterprise fulfills its production plan, but not its sales plan, the result will be a considerable reduction of the net income of the enterprises and of society. For this reason, the index figures which are based directly on the sale of the products, are of great significance in financial reporting.

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First Computation: (Relation):

Proceeds from the sale of goods produced

- Production and excise taxes (Verbrauchsabgaben)

+ Changes in the inventory of finished products at enterprise prices

= Production of goods at actual enterprise prices (during the reporting period)

In this connection, the starting point is the computation system which is valid for the individual product:

Basic expenses (Grundkosten)

+ Departmental expenses (Abteilungskosten)

= Departmental expenses

+ Enterprise overhead and other overhead expenses (Gemeinkosten)

= Prime production costs (Produktionsselbstkosten)

+ Sales costs (Absatzkosten)

= Total prime costs (Gesamtselbstkosten)

+ Net income of the enterprise

= Enterprise price (Betriebspreis)

+ Production and excise taxes

= Industry sales price (Industrieabgabepreis)

The concepts of "Basic Expenses," "Overhead Expenses" (Grund-, Gemeinkosten), etc., are defined in the decree mentioned on page 1, and in the above-mentioned book.

This price structure indicates first of all that the enterprise price of the product is obtained from the industry sales price of the product by deducting the production and excise taxes charged to the product, from the industry sales price. The above data is also required in this computation since "Proceeds From the Sale of Goods Produced" means that the goods which have been sold are to be reported at actual industry sales prices.

However, since the "Production of Goods at Actual Enterprise Prices" does not list the goods sold, but only the goods produced during the report period, the changes in the inventory of finished products at enterprise prices must also be considered. This is done by adding the increases in the inventory of finished products to the proceeds from the sale of goods produced, while decreases are deducted from the proceeds. In the latter case earnings from the sale of products which have been produced outside the report period are included in the proceeds from the sale-of-goods-produced figure. Since only goods produced during the report period are to be included in this case, the decreases in the inventory of finished products have to be deducted from the proceeds.

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The concept "Proceeds From the Sale of Goods Produced" has been outlined clearly in the Guide for Financial Reporting. In this case it is essential that, when including internal consumption in investments and general repairs, the actual industrial sales prices are reported for the goods produced which have been sold. Only when this is taken into consideration will the computation be correct.

#### Second Computation:

Depreciation + consumption of materials + consumption of outside services + wages + social contributions + other types of expenditures = expenditures of the enterprise.

In category 3, all expenditures of the enterprise, with the exception of those charged to the accounts of group 73 ("Other Expenditures Which do not Enter Into Prime Costs of the Product" - extraordinary bank interest, penalty payments for delays, contractual penalties, rental charges, etc.), must be indicated in the individual accounts according to the manner of their accrual, and are to be reported by types of expenditures. When all these entries are added up, the final figure must show the total expenditures of the enterprises.

Expenditures arise only through depreciation, use of materials, use of manpower.

In addition to these three items there is also the expenditure group (Kostengruppe) called "other types of expenditures," which, for technical accounting (abrechnungstechnischen) purposes, is not included in any of the first three groups.

#### Third Computation:

Expenditures of the enterprise:

- Expenditures which do not enter into the prime production costs
- + Changes in the inventory of unfinished products at prime production costs
- = Total prime production costs during the reporting period

Not all of the expenditures which are incurred by the enterprise and which are posted in category 3 enter into the prime costs of products. Some of the reasons for this might be:

- (a) Not all expenditures covering the care of workers are charged to production costs. For example, the enterprise kitchen is financed from the workers' food money and from the cultural-social fund.
- (b) The occurrence of so-called prepayments (Vorleistungen). These are expenditures which can only be charged to the products at a later period. This concerns primarily the means for research and development which are designed to aid in the development of new products and their intended conversion to production. Such prepayments are incorporated at a later period. However, they will have to be covered by a special fund at the time they arise.

The specific expenditures which may be included in this category are explained in the guides. The accounts of group 73 do not belong in this category since they are not included in the enterprise expenditures, i.e., in category 3. The enterprise expenditures, minus the expenditures which do not enter into the prime production costs,

\* Note: Standgelder

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include all production expenses incurred during the report period, regardless of whether or not production of these goods has been completed. However, since only the total prime costs for the goods produced during the report period are to be reported, the changes in the inventory of unfinished products at prime production costs (the unfinished products are assessed in this manner) must be taken into consideration.

Therefore, in order to arrive at the total prime production cost of a commodity the costs incurred in increasing the inventory have to be deducted from the enterprise expenditures, while decreases in the inventory of unfinished products have to be added to the enterprise expenditures. This will become clear when it is realized that the enterprise expenditures -- aside from those expenditures which do not enter into the prime production costs -- can be made good in only two ways: either in the production of commodities, or in increases in the inventory of unfinished products. When there is a decrease in the inventory of unfinished products -- at a given volume of enterprise expenditures -- the total prime production costs have to exceed the enterprise expenditures by that amount. On the other hand, when there is an increase in the inventory of unfinished products, the total prime costs of the (finished) products have to be less than the enterprise expenditures by the amount of these inventory increases.

The following distinction has to be made between two types of prepayments:

- (a) Those which occur currently, but which can be incorporated in the products only during a later report period, and which have to be financed from a special fund during the current report period.
- (b) Those which occurred during earlier periods, but which are incorporated in the prime production costs during the current report period, since the products developed with the aid of the prepayments (means for research and development) have been transferred to current production.

Since the prepayments specified under (b) must be reported in the total prime production costs, but are not included in the expenditures of the enterprise, allowance has to be made for them in those expenditures which do not enter into the prime production costs. This is done by entering as prime costs for accounting purposes, the difference between the prepayments listed under (b) and the prepayments listed under (a) as well as the remaining types of expenditures which do not enter into the prime production costs.

|          |       |                                 |
|----------|-------|---------------------------------|
| Example: | 100   | prepayments under (a)           |
|          | + 70  | remaining types of expenditures |
|          | <hr/> |                                 |
|          | 170   |                                 |
|          | - 60  | prepayments under (b)           |
|          | <hr/> |                                 |
|          | 110   |                                 |

Those prime costs which do not enter into the prime production costs amount to 110. This amount of 110 is to be deducted from the expenditures of the enterprise (category 3).

The above example shows that, in special cases, the expenditures of the enterprise reported in line 10, are to be added. This is done when the prepayments listed under (b) are relatively high.

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|             |                                 |
|-------------|---------------------------------|
| 100         | prepayments under (a)           |
| + 70        | remaining types of expenditures |
| <u>170</u>  |                                 |
| - 190       | prepayments under (b)           |
| <u>- 20</u> |                                 |

This amount of 20 is to be added to the expenditures of the enterprise. The latter case was referred to in Mitteilungsblatt 7/27, paragraph 3. As a rule, this case will occur only in seasonal enterprises (sugar industry).

#### Fourth Computation:

Total prime production costs:

$\pm$  Changes in the inventory of finished products at total prime costs

= Total prime costs of goods sold.

The "total prime production costs" refer to goods produced during the report period. To arrive at the "total prime costs of goods sold," the changes in the inventory of finished products at total prime costs have to be taken into consideration.

As in the case of the third computation, in the fourth computation increases in the inventory also have to be deducted from the amount acquired (Bezugsgroesse), and decreases in the stock have to be added to the amount acquired (in this case, to the total prime costs of goods produced).

The fourth computation requires that in continuing accounting (Fortrechnung) the total prime costs of goods sold must be derived from the total prime costs of good produced.

When a portion of the goods produced during a specific report period is sold, the other portion must be on hand as inventory of finished products. This means that when the inventory of finished products is deducted from the goods produced, the difference must represent the goods produced which have been sold.

In the following example, it is assumed that during the reporting period products were also sold which had been produced during an earlier period, and which had been on hand as inventory at the beginning of the report period. This inventory thus increases the amount of products which have been sold and, therefore, has to be added to the total prime production costs.

|          |           |   |
|----------|-----------|---|
| Example: | 100       | Total prime production costs  |
|          | - 15      | Inventory of finished products, valued at total prime costs at the end of the report period       |
|          | + 10      | Inventory of finished products, valued at total prime costs at the beginning of the report period |
|          | <u>95</u> | Total prime costs of goods produced which have been sold  |

The actual amount of -5 used in the example, precisely represents the amount of the change in the inventory (-15 + 10 = -5).

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Although the different problems of inventory changes were already discussed in connection with the individual computations, an additional example in connection with the first computation should make the point clear. In the fourth relation, one step was taken from the goods produced to the goods sold; in the first relation, however, one has to arrive at the goods produced from the goods which have been sold.

Example:   125   Proceeds from the sale of products (sold at industry sales prices)  
           - 20   Production taxes  
           + 17   Inventory of finished products at factory prices at the end of the report period  
           - 12   Inventory of finished products at factory prices at the beginning of the report period  
           110   Goods produced at factory prices

Apart from the production tax, an amount of +5, representing the inventory change (+17-12=+5), is taken into consideration. In this case, it represents an addition to the inventory (inventory at the end of the report period was 17; inventory at the beginning of the reporting period was 12). Therefore, in the first computation an increase in the inventory has to be added and a decrease in the inventory has to be deducted, while in the third and fourth computation the reverse procedure has to be used, for the following reasons:

In the third and fourth computations the following procedure was used:

- Inventory at the end of the report period
- + Inventory at the beginning of the report period;
- while the opposite procedure was used in the first computation:
- + Inventory at the end of the report period.
- Inventory at the beginning of the report period.

Why are Accounts 81 "Results of Balancing the Production Accounts" (Produktionskontos) and 83 "Results of Balancing Internal Consumption" (Eigenverbrauch) Considered in the Total Prime Costs (Gesamtselbstkosten) of the Goods Sold?

#### 1. Regarding Account (Konto) 81:

The enterprises may evaluate their unfinished and finished products at actual basic costs and planned overhead costs (Plan-Gemeinkosten), or entirely at plan costs. In such cases the following would occur:

The actual expenditures are reported in the expenditures of the enterprise and in the total prime production costs since only actual expenditures (with the exception of the accounting prices for materials) are entered in the "Types of Expenditures" accounts of category 3, while the actual basic costs and planned overhead costs or plan costs of the finished products are entered in the total prime costs of goods sold (account 605). The relations thus can no longer be correct. In order to prevent this, the difference between actual costs and plan costs, or actual basic costs and planned overhead costs -- specifically, account 81 -- is included in the total prime costs of the goods produced which have been sold. The total prime costs of the goods sold are thus reported at actual cost.

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## 2. Regarding Account 83:

This account is included in the total prime costs of the goods sold because it is necessary that internal consumption (Eigenverbrauch) of investments and general repairs be taken into consideration in the proceeds, in commodity production, and in the total prime costs of the goods sold. This internal consumption is already included in the expenditures of the enterprise (and thus also in the total prime production costs), since it is picked up in the "Types of Expenditures" -accounts of category 3.

Fifth Computation:

This entails adding up all accrued proceeds to obtain the total. Enterprise proceeds are:

Proceeds from sales  
plus  
Other proceeds  
plus  
Proceeds from the industrial shops.  
equals  
Enterprise proceeds

The proceeds from sales are the decisive factor in this case, because the enterprises are primarily concerned with the production of goods. It should be noted that the remaining proceeds are not reported as balanced accounts, but that their basis, the expenditures and proceeds, are shown.

Sixth Computation:

Proceeds from the sale of goods produced  
minus  
Total prime costs of goods sold  
minus  
Surplus profits and proceeds which have to be surrendered  
equals  
Proceeds from the sale of the commodity

In this case, the total prime costs of the sold goods has to be accounted for, since proceeds and subsequently returns, can be obtained only from the sale of the goods produced. The returns from the sale of the goods produced represent the direct returns from the primary activity of the enterprise, namely, the production and sale of products, while the enterprise returns also include other additional returns such as proceeds from the activities of the industrial shops. (Industrie laeden)

The surplus profits which have to be surrendered can arise only in those enterprises which still work with estimated prices (Kalkulationspreise) per product, instead of fixed prices. In this case each enterprise estimates its own price. In article 6, paragraph 2, of the decree concerning the Preparation and Auditing of Estimates, Legal Gazette, Part I, No. 34/1955, it is stated that: "When the results of subsequent calculation turn out to be more than 3% below those of the preliminary calculation, the excess of this amount will be surrendered to the state budget. This payment (Abfuhrung) will not be counted as part of the planned profits payment (Gewinnabfuhrung)."

Since the returns from the sale of the goods (account 609) are to be shown in such a manner as to preclude their being prejudiced by aspects which are for the enterprise either negative (for instance, legal price changes) or positive (for instance, computation of reserves in the prime costs where no fixed prices have been established),

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account 609 will show neither the surplus profits which have to be surrendered, (abfuhrungspflichtiger Mehrgewinn) nor the effects of the price changes. This means that account 609 is to show the planned returns, i.e. they should be reported without being prejudiced by those aspects which are not based directly on the good or poor work of the enterprise. Since the surplus profits which have to be surrendered are included in the proceeds from the sale of the goods, but are not included in the returns from the sale, they will have to be deducted from the proceeds.

Since accounts 81 and 83 were already picked up in the total prime costs of the goods sold they will also have to be considered in the returns from the sale of the goods.

#### Additional Comments:

##### 1. Reporting of Prime Cost Reductions (Selbstkostensenkung)

The planned reduction of prime costs (columns 4 and 5) is based on the planned prime production costs for the respective year. In balancing the 1958 accounts, however, a comparison with actual values will be made:

Actual prime costs in 1957 of actual production in 1958, and

Actual prime costs in 1958 of actual production in 1958.

This means that the reduction of prime costs as reported by the enterprises can be affected when the enterprise shifts from the planned combination of assortments to a combination which favors the attainment of reduction in prime costs. In certain circumstances, such a reduction of prime costs, which can be reported when the entries in columns 4 and 7 and/or columns 5 and 6 are compared, cannot entirely be attributed directly to good work on the part of the enterprise.

The following course is possible in making an analysis: The comparison of the entries in columns 6 (columns 1-3) and 5, and/or columns 7 and 4 may be supplemented by comparing the actual prime production costs in 1957 (column 9) with the planned prime production costs (column 2). In this manner, a planned reduction of prime costs is obtained which would have arisen had the actual combination of assortments been known at the time the plan was drawn up. The effect of the shifts in assortments can be roughly gathered by comparing these entries with the entry in column 5. The value of such a comparison should not be overestimated, however, especially in view of the fact that it is possible that the enterprise deviates from the planned assortment in both directions, in which case the deviations cancel each other out.

#### Example of Deviations from the Planned Assortment

Reporting Period 1 January - 31 December 1958

| Actual Quantity of Comparable Production at |                          |                         | Planned Reduction of Prime Costs (State task for 1958) |             | Development of Prime Costs (Reduction - , Increase +) Compared with 1957 |     |
|---|--------------------------|-------------------------|--|-------------|--|-----|
| Actual Prime Costs 1957                     | Planned Prime Costs 1958 | Actual Prime Costs 1958 | %  | Thousand DM | Thousand DM  | %   |
| 1   | 2                        | 3                       | 4  | 5           | 6  | 7   |
| 2,000                                       | 1,890                    | 1,890                   | 5  | -100        | -110   | 5.5 |

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The following picture presents itself:

1. Comparison of columns 4 and 7: The enterprise has achieved its planned reduction of prime costs and even overfulfilled it (5.5% instead of 5%).
2. Comparison of columns 1-2 with 6:  $2,000 - 1,850 = 150$  (corresponds to 7.5%)

It is now shown that the enterprise would not have achieved its reduction of prime costs if the plan had been based on the actual combination of assortments.

## 2. Regarding the Total Prime Production Costs (line 12, column 3)

In column 3, the third and fourth computation cannot be correct, since the planned prime costs of the actual production must be reported in column 2 as total prime production costs. For this reason also, the designation "Plan through the End of the Current Quarter" does not apply to this line. In the other parts of column 3, reference is always made to planned production.

If production during the report period concerns only comparable production, the amounts posted in columns 3 and 4 have to agree with those in columns 2 and 3 in section 2. This will be the case especially in local nationalized enterprises.

In column 3, however, the summarization of the third and fourth computation also has to be correct: line 9 - line 10 + line 11 = line 13 = line 14.

## 3. The Concept "Production"

There is no agreement between the concept of production in production reports and the concept of production in financial reports, because in financial reports production includes also industrial output, non-industrial output for foreign customers and for internal investments, and general repairs.

## 2. Construction Industry (Bauwirtschaft)

The above explanations concerning financial reporting in industry may serve as a guide in checking the material and mathematical correctness of statements contained in financial reports of the construction industry (form 63). However, there are several peculiarities in the finances of the construction industry. These will be discussed below, especially since these peculiarities have not yet been sufficiently considered in the 1958 guides for reports by the construction industry "Financial Section of the Plan." These peculiarities are also reflected in several of the financial indexes and in their relations to each other.

### a. Assessment of Turnover Figures in the Construction Industry

In evaluating the turnover figure which is entered in the financial report, one has to proceed from the fact that the smaller enterprises, which include for instance Kreis construction enterprises, as a rule attain a larger turnover figure than the Bau-Union enterprises, since they normally get along with smaller supplies of materials, and, therefore, have to meet fewer reporting deadlines (Richttage). This is due to the fact that the construction sites of Kreis construction enterprises are located closer to the enterprise site; that the accounts of the smaller construction projects can be balanced in a shorter period of time; and that local construction materials are used to a large degree.

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b. Characteristics of Construction Prices, Compared with Price Formation in Industry

The fact that fixed construction prices should correspond roughly to the average prime costs of individual construction jobs during 1955, was used as a basis in the formation of the fixed prices for rough construction (Rohbau) (key construction jobs). This means that the prices were established so that they included neither a planned profit nor a production tax. The reduction of prime costs was to be the only source of accumulation. As far as the production tax is concerned, this regulation is still valid. Since there is also no production tax allocated to that part of the construction production which is evaluated at estimated prices (part of the production of rough construction, plus the entire production of the finishing work); only a very small amount, composed of the tax or commercial goods and for industrial production of by-products, is likely to appear in paragraph III, line 2. In connection with the planning of profits, however, a change has occurred since the time fixed prices were introduced. Since a considerable reduction of the prime costs of the construction industry has been possible in some areas since 1955, a change was effected, and a levy of a planned net profits charge (Nettogewinnabfuhrung) was imposed on the enterprises in connection with the planning of prime costs. Since the lowering of the prime costs is a lawful process, the profits of construction enterprises should increase steadily on the basis of the fixed prices. It is, therefore, quite likely that the question of state participation in the net income of the construction industry will again be examined at the proper time. It is not known at present whether a production tax for the construction industry will be initiated, or whether a decision will be made in favor of a general lowering of fixed construction prices.

c. The Computations of the Financial Index Figures of the Construction IndustryFirst Computation:

Proceeds from the sale of commodity production at industry sales prices:  
 minus  
 Production tax  
 plus or minus  
 Changes in the inventory of the finished production at factory prices  
 (increase=plus; decrease=minus)  
 equals  
 Total computation production at factory prices

In this computation there appears a peculiarity when compared with the stationary industry, inasmuch as the items "production tax" and "changes in the inventory of the finished production" are of little importance. The reason for the production tax has already been given. The low inventories, and thus also, on the assumption of a continuous production, the insignificant changes in the inventory of the finished production are due to the fact that the products of the construction industry are utilized at their place of production; the function of the sale, in the true sense of the word, insofar as it does not concern the production of by-products, ceases thereby. Inventories of finished production can accrue only when a delay occurs in the transfer of the completed projects -- for instance, as a result of delays in taking delivery of the construction project, or the customer's temporary insolvency.

As far as item 1 (proceeds from the sale of the commodity at industry sales prices) is concerned, the generalized designation "at industry sales prices," is not entirely applicable. Actually, part of the sold commodity, i.e., the largest part, is evaluated at fixed construction prices; another part at estimated prices; and only by-products which have been sold are evaluated at industry sales prices.

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Second Computation:

Separation of planned construction production and planned production of by-products for third parties, from commodity production.

The production of by-products for third parties concerns a phenomenon which is far more pronounced in the construction industry than in any other branch. In this case the most important item is the production of construction parts, which can also be taken over for other enterprises by large construction enterprises who specialize in this field. Repairs to machinery and equipment, which are performed for other enterprises in the repair departments of construction enterprises, also come under this item.

The production of by-products for internal consumption, which appears under item 5, has similar characteristics, except for the distinction that it is not computed at the enterprise price, but at prime costs.

Third Computation:

Depreciaton (including rents and leases)

plus  
Material consumption  
plus  
Consumption of outside services  
plus  
Wages  
plus  
Social contributions  
plus  
Other types of expenditures  
equals  
Expenditures of the enterprise

Fourth Computation:

Expenditures of the enterprise

minus  
Expenditures other than prime production costs  
plus or minus  
Changes in the inventory of the unfinished production at prime production costs  
(increase = minus; decrease = plus)  
equals  
Total prime production costs

Fifth Computation:

Total prime production costs

plus or minus  
Changes in the inventory of the finished production (increase = minus; decrease = plus)  
equals  
Total prime costs of the commodity sold

The above three computations correspond to computations 2 to 4 cited in the industry section.

This passage will merely discuss the special characteristics of unfinished production in the construction industry. The construction industry has the characteristics of

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long-term, single-part production. It would be wrong to conclude that the inventories of unfinished production in the construction industry are relatively high and that the changes in the inventories of unfinished production, therefore, are also very significant.

The long production process requires that an interim accounting of the services rendered be made. That is, the construction enterprise is paid every ten days for the work performed during this period. Only that part of the construction production which has not yet been included in this settlement is then considered unfinished production.

#### Sixth Computation:

This computation includes the addition of all the results (items 12.1 to 13.2) to the enterprise returns (item 14). The mathematical relation between the individual items is no problem in this case. However, it will be necessary to comment on several of the items. The result from the sale of a commodity (item 12.1) is derived from the following calculation:

Proceeds from the sale of the commodity (item 1) (Pos. 1)  
 minus  
 Production tax (item 2)  
 minus  
 Total prime costs of the commodity sold (item 11)

Item 12.2 includes several result entries which should be considered typical for the construction industry. Before explaining these items, it should be pointed out that the sale of commercial goods and scrap metal, as well as substantiated costs (Nachweiskosten) and services rendered by a secondary contractor (Nachauftragnehmerleistungen) influence the result in a positive manner, while guaranteed work and rejects have a negative influence on the result.

Substantiated costs are expenditures for which the enterprise which performs the construction work is to be reimbursed by the customer upon submission of a statement. They include the following: substantiated wages (Nachweisloehne), depreciation and rents for construction machinery and equipment which is idle or used at a later date, internal and outside transport services for the movement of personnel, expenditures incurred in the guarding of construction sites by outsiders, tolls, severance payments, and housing allowances.

Results from services rendered by a secondary contractor (NAN-Nachauftragnehmerleistungen, services rendered by a secondary contractor) arise from the fact that usually several construction enterprises participate in the execution of a construction project, in which case, one enterprise (the chief contractor) assumes responsibility for all work connected with the project, and the secondary contractor is not authorized to transfer parts of his order to other enterprises without the approval of the chief contractor. The chief contractor bears full responsibility for the work of his secondary contractors concerning the execution and quality of the work, observance of deadlines, reduction of prime costs, and other problems connected with the construction project. He may charge the customer two percent of the construction costs, representing expenses incurred in supervising the construction.

Guaranteed work is necessary when deficiencies in the construction project, which are the fault of the construction enterprise, become apparent during the period of guarantee. This guaranteed work has to be done by the construction enterprise without charge. The expenses incurred in this connection thus lower the enterprise returns.

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long-term, single-part production. It would be wrong to conclude that the inventories of unfinished production in the construction industry are relatively high and that the changes in the inventories of unfinished production, therefore, are also very significant.

The long production process requires that an interim accounting of the services rendered be made. That is, the construction enterprise is paid every ten days for the work performed during this period. Only that part of the construction production which has not yet been included in this settlement is then considered unfinished production.

#### Sixth Computation:

This computation includes the addition of all the results (items 12.1 to 13.2) to the enterprise returns (item 14). The mathematical relation between the individual items is no problem in this case. However, it will be necessary to comment on several of the items. The result from the sale of a commodity (item 12.1) is derived from the following calculation:

Proceeds from the sale of the commodity (item 1) (Pos. 1)  
 minus  
 Production tax (item 2)  
 minus  
 Total prime costs of the commodity sold (item 11)

Item 12.2 includes several result entries which should be considered typical for the construction industry. Before explaining these items, it should be pointed out that the sale of commercial goods and scrap metal, as well as substantiated costs (Nachweiskosten) and services rendered by a secondary contractor (Nachauftragnehmerleistungen) influence the result in a positive manner, while guaranteed work and rejects have a negative influence on the result.

Substantiated costs are expenditures for which the enterprise which performs the construction work is to be reimbursed by the customer upon submission of a statement. They include the following: substantiated wages (Nachweisloehne), depreciation and rents for construction machinery and equipment which is idle or used at a later date, internal and outside transportatin services for the movement of personnel, expenditures incurred in the guarding of construction sites by outsiders, tolls, severance payments, and housing allowances.

Results from services rendered by a secondary contractor (NAN-Nachauftragnehmerleistungen, services rendered by a secondary contractor) arise from the fact that usually several construction enterprises participate in the execution of a construction project, in which case, one enterprise (the chief contractor) assumes responsibility for all work connected with the project, and the secondary contractor is not authorized to transfer parts of his order to other enterprises without the approval of the chief contractor. The chief contractor bears full responsibility for the work of his secondary contractors concerning the execution and quality of the work, observance of deadlines, reduction of prime costs, and other problems connected with the construction project. He may charge the customer two percent of the construction costs, representing expenses incurred in supervising the construction.

Guaranteed work is necessary when deficiencies in the construction project, which are the fault of the construction enterprise, become apparent during the period of guarantee. This guaranteed work has to be done by the construction enterprise without charge. The expenses incurred in this connection thus lower the enterprise returns.

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Item 12.3 -- result obtained by balancing the purchase of materials -- includes the differences which arise when enterprises obtain the same type of materials at different cost prices, and then use material accounting prices in order to eliminate these differences within the enterprise. The differences between the cost prices and the material accounting prices (Material Verrechnungspreise) will be reported as balanced in item 12.3 (the same as result items 12.1, 12.2, and 12). The item "remaining result" (13.1 and 13.2), under which expenditures and proceeds are entered separately, is an exception in this case, so as to let both these entries appear at their absolute level.

#### Seventh Computation:

Production of the enterprise (Betriebsergebnis)  
 minus  
 Contributions to the enterprise bonus fund and to the cultural and social fund  
 minus  
 Repayment of investment credits  
 equals  
 Net profit

#### Eighth Computation:

This includes the breakdown of the net profit (Nettogewinn) into the following:

- (a) Planned surrender of net profits to the state budget (Haushalt)
- (b) Planned surrender of net profits for redistribution
- (c) Contributions to the current assets fund
- (d) Contributions to the fund for the expansion of capital assets
- (e) Other uses of net profits
- (f) Surrender of net profits realized in excess of the plan

The last two computations require no further explanation. It suffices to point out that the total of items c, d, and e represents the enterprise profit while item a, b, and f, together with the production tax, show the state budget accumulation.

### 3. Trade

In explaining the financial reporting by the trade organizations, it will be necessary first of all to present a survey of the system of financial reporting.

#### a. Financial Reporting by State Retail Trade Organizations (HO)

aa. Financial reports are submitted in several installments on various forms and on different dates, depending on their contents. The total scope of financial reporting includes six parts whose designation and contents are presented below:

#### 1. Financial Report -- Retail Trade -- Part I

This report concerns the monthly balancing of the financial plan in its most important indexes. The report is submitted monthly in figures which accrue from the beginning of the year. Moreover, a report of the utilization of profits, subsidies and

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amortizations has to be included in the report. Monthly statements concerning employment and cumulative figures regarding wages are included in this partial report.

To facilitate a clear understanding, the connection between the most important coefficients in this part of the financial report will once more be presented systematically:

Proceeds from the trade margin  
 plus  
 Other proceeds  
 plus  
 Proceeds from services rendered (for instance, garments made to order, fashion shows)  
 equals  
 Trade proceeds  
 minus  
 Trade tax  
 minus  
 Distribution costs (Zirkulationskosten)  
 plus  
 Remaining returns  
 equals  
 Returns, trade profit or loss  
 plus  
 Returns from production (from Part II)  
 equals  
 Enterprise returns, profit or loss

In the guide of the Ministry of Trade and Supply, the budget accumulation of retail trade (in the case of enterprises which operate on a profit basis) is represented as the result of the following computation:

Trade tax  
 plus  
 Production tax  
 plus  
 Enterprise returns profit  
 minus  
 Rate of redemption and interest on investment and rationalization credits (Rationalisierungskredite)  
 minus  
 Contributions to the enterprise bonus fund, cultural and social fund.

This specification should not as yet be regarded as final since the use of profits during 1958 has not yet been regulated. Several items will presumably be added to the items which have to be deducted from the enterprise profits so that the budget accumulation will be considerably smaller than that presented by the above computation.

## 2. Financial Report -- Retail Trade -- Part II

Part II represents the monthly balancing of the financial plan of those production departments which are attached to several HO enterprises (baked goods and meat products), in the most important coefficients.

In this case the accounts are also balanced cumulatively from the beginning of the year. The enterprise returns (profit or loss) of these departments are carried over into the

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financial report. Part I, of the respective HO enterprise and, together with the trade returns, form the enterprise returns (profit or loss).

The production tax is also carried over from Part II into Part I, so that the budget accumulation of the enterprise may be computed in Part I.

### 3. Financial Report -- Retail Trade -- Part III

The monthly ~~report~~ concerning the financing of current funds and funds for credits (Kreditdeckung) is presented in Part III.

This report is required only of the enterprise itself and of that branch of the German Bank of Issue (Deutsche Notenbank) handling this business for the enterprise, for the purpose of checking on the credits which have been issued in connection with other financing transactions (through profit, commitments, and others).

### 4. Financial Report -- Retail Trade -- Part IV

In order to obtain an insight into the work of the individual areas of the enterprise (sales centers, rendering of services, etc.) the trade enterprises prepare a breakdown of the circulation costs every 3 months in Part IV (which is contained in Part I as a total figure only, with a few items providing breakdowns of the figures) according to (a) areas and (b) types of expenditures. In addition, the remaining returns (which are only reported in a lump sum in Part I) are broken down in Part IV.

The following is required for the consolidation (Konzentration) of Part IV:

- (a) The total expenditures of the individual areas (Bereiche)
- (b) The breakdown of the total distribution costs of the enterprises collectively according to types of expenditures
- (c) The remaining expenditures and remaining proceeds of the enterprises according to the organization provided for by the accounts plan ((Kotenplan).

### 5. Financial Report -- Retail Trade -- Part VI<sup>1</sup>

Part VI shows the development of the enterprise fund. This part is divided into 3 sections:

Section A - capital assets fund

Section B - current assets fund

Section C - Report on the development of the enterprise bonus fund and the cultural and social fund.

Semi-annual reports are submitted regarding certain items of Section A, and regarding all items of Section B. The items in Section C are included in the report only once, i.e., at the end of the year.

### 6. Financial Report -- Retail Trade -- Part VII

Once annually, at the end of the year, all enterprises compare all their assets (Aktiva) with the corresponding liabilities (Passiva) in their financial statement.

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bb. Practical and Mathematical Verification of Financial Reporting and the Meaning of Several Index Figures (Kennziffern)

The Ministry of Trade and Supply (Ministerium fuer Handel und Versorgung) has already issued a guide concerning financial reporting. Since the employees of the State Central Administration of Statistics (Staatliche Zentralverwaltung fuer Statistik) at the Bezirk and Kreis levels have had little contact with financial reporting up to now, additional suggestions which go beyond the scope of this guide, are presented regarding the practical and mathematical verification. This is also necessary because the terminology does not always give a clear indication of the substance. The substance of the explanations by the Ministry of Trade and Supply will not be repeated here; it will, therefore, be necessary to study these explanations thoroughly.

Concerning the Financial Report -- Retail Trade -- Part I

In checking the entries in the report, it should be noted that the report is presented in figures which accumulate monthly. It thus follows that the actual figures shown in columns 3 and 5 of the lines No. 1 to 8.41 and 13 must be higher during the succeeding month than those of the preceding month.

Positive, as well as negative, figures may appear in line 9, showing the remaining returns, since "remaining expenditures" and "remaining proceeds" are here reported as balanced. The specific relation to the preceding month will be established by adding, or subtracting, the monthly amount shown in column 8.

Example:

|   |          |
|---|----------|
| Line 9, column 5, for February, shows   | + 100.00 |
| column 8 (representing the returns<br>for February only)                            | - 150.00 |
| Line 9, column 5, consequently must show, for<br>the month of January, an amount of | + 250.00 |

For a closer examination of the index "remaining returns," its concrete substance will be explained; in addition, it is also pointed out that in this case "remaining proceeds" and "remaining expenditures" are reported as balanced.

The remaining proceeds (Uebrige Erloese) are the following:

- Interest on delayed payments (Verspaetungszinsen)
- Fines for contract violation (Konventionalstrafen)
- Demurrage charges which are carried forward (weiterberechnete Standgelder)
- Inventory surplus differences (Inventur-Plus-Differenzen)
- Extraordinary kitchen production profits (Aussernormaler Kuechen-Produktionsgewinn)
- Cash-surplus-differences (Kassen-Plus-Differenzen)

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Proceeds from accounts receivable and payable which have been written off  
(Abgeschriebene Forderungen und Verbindlichkeiten)

Surpluses

Deferred assets (literally: proceeds not confined to report period = Periodenfremde Erlöse)

The remaining expenditures may consist of the following:

Interest on delayed payments (Verspaetungszinsen)

Fines for contract violation and disciplinary fines (Konventional- und Ordnungsstrafen)

Interest claimed on overdue bank credits (Zinsen fuer ueberfaellige Bankkredite auf Forderungen)

Default payments (Verzugszuschlaege)

Demurrage charges (Standgelder)

Inventory-minus-differences in the sphere of basic and current operating funds (Grund- und Umlaufmittelsphaere)

Cash-minus-differences (Kassen-minus-Differenzen)

Debts which have been written off

Price reductions for overripe fruits and vegetables

Other remaining expenditures

Regarding lines 10.1 to 12.2 and 14, reference is made to the Ministry of Trade and Supply guide, page 7.

The comparative figures (Beziehungszahlen) which are computed in columns 4 and 6, must be recomputed after each compilation of several reports.

For several items in column 8, the realization of the quota for the preceding month is to be shown in percentages. To compute these percentage figures, the following preliminary work is necessary:

Value reported in Column 3 of the current monthly report  
minus

Value reported in Column 3 of the report of the preceding month  
equals X

Value reported in Column 5 of the current monthly report  
minus

Value reported in Column 5 of the report of the preceding month  
equals Y

$\frac{Y \times 100}{X}$  % for Column 8 of the current monthly report.

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The monthly fulfillment is reported only by enterprises which are required to submit reports. The entry reported in column 8 is omitted in all of the compilations with the exception of line 9. Also, the annual realization in column 9 can be entered only by the enterprises; a consolidation (Konzentration) is not possible.

The utilization of profits, subsidies and amortizations is to be reported on the back of the report. In the explanations prepared by the Ministry of Trade and Supply, pages 8 and 9, there are examples showing how this is to be accomplished and the manner in which it is computed. The practical verification of this part can be undertaken only by the agencies which have jurisdiction over the enterprises in question.

In connection with the statements required under lines 35 to 36.2 pertaining to employees, reference is made to the explanations by the Ministry of Trade and Supply, pp 9 to 11.

#### Concerning the Financial Report -- Retail Trade -- Part II

The figures in this report also accrue from the beginning of the year. The information presented in Part I essentially applies also to columns 3 to 9. The front page of Part II is divided into two sections:

Section A - Production - Baked goods

Section B - Production - Meat products

#### Regarding Section A

With the exception of the values listed in lines 2.6 and 11 to 13.2, the values as shown must increase from month to month. The change in the inventory ( $\pm$ ) in line 2 shows the change in the final inventory (Endbestand) of unfinished products and finished products, compared with the starting inventory (Anfangsbestand) of the current month.

Example:

|                                  | Inventory of        |                    |
|----------------------------------|---------------------|--------------------|
|                                  | Unfinished Products | Finished Products  |
| On 1 January                     | 5,000 DM            | 20,000 DM          |
| On 31 January                    | 3,000 DM (-2,000)   | 25,000 DM (+5,000) |
| Change in the January inventory  | 3,000 DM            |                    |
| On 28 February                   | 5,000 DM (+2,000)   | 22,000 DM (-3,000) |
| Change in the February inventory | -1,000 DM           |                    |

Since production is included in the unfinished products, as well as in the finished products, the output shown in line 3 is higher than the production turnover when there is a positive change in inventory ( $+$ ), and is lower when there is a negative change in inventory ( $-$ ).

The "remaining proceeds" are shown as balanced here, the same as in the Financial Report, Part I.

#### Regarding Section B:

The statements made in Section A also apply to this section. In addition, the excise levied against the production and paid to the state budget is reported in line No. 14. Since a double price standard still exists for meat and meat products, the excise which is included in HO prices is not included in the production tax, but is collected separately and charged against production.

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Concerning the Financial Report -- Retail Trade -- Part III

Since this part is not controlled or compiled by the Statistics Office, it does not come within the scope of these instructions.

Concerning the Financial Report -- Retail Trade -- Part IV

This report is submitted every 3 months. The enterprises report on DIN (Deutsche Industrienormen (German Industrial Standards)) form/A 3. DIN form/A 5 has been prepared for use at a Kreis and/or at Bezirk level.

When the report data of the enterprises is checked, attention should be paid to the fact that the following items of Part IV must agree with the data in Part I and II, which are submitted on the same date:

|                                      | <u>Part</u>                           | <u>Line</u> | <u>Column</u> |                 | <u>Part</u> | <u>Line</u>  | <u>Column</u> |
|--------------------------------------|---------------------------------------|-------------|---------------|-----------------|-------------|--------------|---------------|
| 1.                                   | IV                                    | 6           | 20            | must agree with | I           | 8.1          | 3             |
| 2.                                   | IV                                    | 6           | 21            | "               | I           | 8.1          | 5             |
| 3.                                   | IV                                    | 11          | 20            | "               | I           | 8            | 3             |
| 4.                                   | IV                                    | 11          | 21            | "               | I           | 8            | 5             |
| 5.                                   | IV                                    | 6           | 23            | "               | II          | 10.1         | 3*            |
| 6.                                   | IV                                    | 6           | 24            | "               | II          | 10.1         | 5*            |
| 7.                                   | IV                                    | 11          | 23            | "               | II          | 10           | 3*            |
| 8.                                   | IV                                    | 11          | 24            | "               | II          | 10           | 5*            |
| 9.                                   | IV                                    | 11          | 12            | "               | I           | 8.3 &<br>8.4 | 3             |
| 10.                                  | IV                                    | 11          | 13            | "               | I           | 8.3 &<br>8.4 | 5             |
| 11.                                  | IV Breakdown of the remaining returns |             |               |                 |             |              |               |
| Total of the remaining expenditures) |                                       |             |               | } with          | I           | 9            | 5             |
| minus                                |                                       |             |               |                 |             |              |               |
| Total of the remaining proceeds      |                                       |             |               |                 |             |              |               |

\* Section A and B

The enterprise report data at the Kreis and/or Bezirk level are totalled on DIN form/A 5. In this case, only the total expenditures of the various areas are carried over as follows:

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From the Report SheetsTo the Compilation Sheet (Konzentrationsblatt):

Line 11, Column 3

" 11, " 4

" 11, " 6

" 11, " 7

and so forth, up to

Line 11, Column 20

" 11, " 21

" 11, " 23

" 11, " 24

Line 1.1 Column 3

" 1.1 " 4

" 1.2 " 3

" 1.2 " 4

Line 6 Column 3

" 6 " 4

" 7 " 3

" 7 " 4

The breakdown of the types of expenditures on the compilation sheet represents the total of columns 20 and 21, lines 1 to 12, obtained from the report data of the enterprise.

The realization/percentage shown on the compilation sheet (column 5) and the comparative economic figures (Beziehungszahlen) (column 6) of the enterprise have to be computed as follows:

For column 5 per line

$$\frac{\text{Value from Column 4} \times 100}{\text{Value from Column 3}}$$

For column 6 (for example)

$$\frac{\text{Value from Column 4, line 1.1} \times 100}{\text{Value from Column 4, line 6}}$$

The reverse side of the compilation sheet lists the total of the breakdown of the remaining returns obtained from the report data of the enterprises.

Concerning the Financial Report -- Retail Trade -- Part VI and Part VII

Since Part VI is only due twice a year (the first due date is 30 June 1958), and Part VII is prepared only at the end of the year, the instructions for both these parts will be issued at a later date.

Financial Reporting by State Consumer Goods Wholesale Trade Organizations (GHK-Gross-handelskontor)

aa. The structure of financial reporting by the wholesale trade organizations

1. Financial Report -- Wholesale Trade -- Part I

This report represents the monthly balancing of the financial plan in its most important indexes. In each case the report is prepared in cumulative figures which accrue from the beginning of the year. Furthermore, the report has to present a

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record of the commission trade transactions, and report on the utilization of profits, subsidies, and amortizations. Moreover, monthly statements concerning the number of employees, and cumulative figures on wages are included in this report.

## 2. Financial Report -- Wholesale Trade -- Part II

Part II represents a monthly record concerning the commodity financing plan. This report also contains cumulative figures starting from the beginning of the year.

## 3. Financial Report -- Wholesale Trade -- Part III

A monthly record covering the financing of current assets and of funds for credits is presented in Part III. This record is required only of the enterprise itself and of that branch of the German Bank of Issue (Deutsche Notenbank) which handles the banking business of the enterprise, for the purpose of checking on the credits which have been issued in connection with the other financing transactions (through profit, obligations, and others).

## 4. Financial Report -- Wholesale Trade -- Part IV

In Part IV, "Breakdown of the Distribution Costs and of the Other Returns," the enterprises submit a survey of the work of the individual areas of a wholesale trade enterprise (stocks, internal merchandise transportation system, external transportation of merchandise, etc.) every 3 months.

Supervisory organs, i.e., the State Central Administration for Statistics, require only certain items from the reports of the enterprises for their compilation.

## 5. Financial Report -- Wholesale Trade -- Part VI<sup>1</sup>

Part VI shows the development of the enterprise fund. It is divided into 3 sections, as follows:

A - Capital Assets Fund

B - Current Assets Fund

C - Report on the Development of the Enterprise Bonus Fund, and the Cultural and Social Fund.

Semi-annual reports are submitted regarding certain items of Section A, and regarding all items of Section B. The items in Section C are included in the report only once, i.e., at the end of the year.

## 6. Financial Report -- Wholesale Trade -- Part VII

At the end of the year all enterprises compare their active assets with the corresponding liabilities in their financial statements.

## bb. Practical and Mathematical Verification of Financial Reporting and the Meaning of Several Index Figures

The Ministry of Trade and Supply has already issued instructions covering financial reporting by state wholesale consumer goods trade organizations. The contents of these explanations by the Ministry of Trade and Supply will not be repeated in the present instructions. It will, therefore, be necessary to study

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these explanations thoroughly. However, it is necessary to present additional references which go beyond the scope of these explanations, in connection with the practical and mathematical verification, and regarding the substance of several coefficients.

#### Concerning the Financial Report -- Wholesale Trade -- Part I

Upon examination it should be noted that the report is presented in figures which accumulate monthly. It thus follows that the actual figures shown in columns 3 and 5 of lines 1 to 8, 2 and 11, must be higher during the current reporting month than those of the preceding month. Positive as well as negative figures may appear under "Remaining Returns" (line 9) inasmuch as "Remaining Expenditures" and "Remaining Proceeds" are reported as balanced in this case. The specific relation to the preceding month will be established by adding or subtracting the monthly amount shown in Column 8.

#### Example:

|   |        |
|---|--------|
| Line 9, column 5, February, shows                     | 100.00 |
| column 8 (representing the returns for February only) | 150.00 |

|   |        |
|---|--------|
| Consequently, the amount shown in line 9, column 5, has to be | 250.00 |
|---|--------|

In the index "Remaining Returns," remaining proceeds and remaining expenditures are reported as balanced.

The following constitute remaining proceeds (Uebrig Erloese):

Interest on delayed payments

Fines for contract violation

Demurrage charges which are carried forward

Inventory minus differences from previous years

Cash plus differences

Accounts receivable and payable which have been written off

Deferred assets

Calculated tolerance allowance on import shipments (\*)

Specific commodity changes (\*)

Other remaining proceeds

(\*)-applies only to GHK Lebensmittel  
(foodstuffs)

The remaining expenditures (Uebrigen Kosten) include the following:

Interest on delayed payments

Fines for contract violation and disciplinary fines

Interest claimed on overdue bank credits

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Default payments

Demurrage charges

Inventory minus differences of the current year

Inventory plus differences from previous years, which have been settled

Debts which have been written off

Deferred liabilities (literally: costs not confined to time to time limits - "Periodenfremde Kosten")

Decreases in weight and quality of import shipments (\*)

Price reductions for perishable fruits and vegetables (\*)

Other remaining expenditures

The returns of the wholesale trade are shown in line 10.1 as a profit, or in line 10.2 as a loss. These returns are composed of the following:

Line No.

1. Commodity turnover at sales price  
minus
2. Commodity turnover at purchase price  
equals
3. Gross profits from the trade margin  
minus
4. Adjusted profits  
plus
5. Remaining trade proceeds  
equals
6. Trade proceeds  
minus
7. Trade tax  
minus
8. Circulation costs  
plus or minus
9. Remaining returns  
equals
- 10.1 Returns wholesale trade profit  
or
- 10.2 Returns wholesale trade loss

The returns from commission trade are shown in line No. 11. These returns may consist of a profit or a loss. The profit is indicated by the plus sign (+), and the loss by the minus sign (-). The returns in the column "Commission Trade" must agree with the returns shown in line 18, and this applies both to column 3 (plan) and to column 5 (actual).

The returns in the column "Wholesale Trade" (line No. 10.1 or 10.2) plus "Commission Trade" (line No. 11) show the enterprise returns "Profits" (line 12.1) and/or "Loss" (line 12.2).

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Kennziffer "Budget Accumulation" (Haushaltsakkumulation) (line 13) is defined in the explanations by the Ministry of Trade and Supply page 7:

Commission trade is balanced in lines 14 to 18.

The reported values are not included in the first section, with the exception of the values listed in lines 16 and 18.

The trade tax reported in line 16 is incorporated in the budget accumulation and entered on line 13.

The comparative figures in columns 4 and 6, must be recomputed after each compilation of several reports. For several items in column 8 the quota realization for the preceding month is to be shown in percentages. The following preparations are necessary for the computation of these percentage figures:

- (1) Value reported in column 3 of the report for the current reporting month  
minus  
The value reported in column 3 of the report for the preceding month  
equals X
- (2) Value reported in column 5 of the report for the current reporting month  
minus  
The value reported in column 5 of the report for the preceding month  
equals Y
- (3)  $\frac{Y \times 100}{X}$  % for column 8 of the current reporting month

The monthly fulfillment is reported only by those enterprises which are required to submit reports. The value in column 8 is omitted in all compilations with the exception of line 9. Also, the yearly plan realization in column 9 may be entered only by the enterprises; there is no consolidation (Konzentration).

The utilization of profits, subsidies, and amortizations is to be reported on the back of the report. The explanations by the Ministry of Trade and Supply (pp 7 and 8) include examples showing how this is to be accomplished and the manner in which it is computed. The practical verification of this part can be undertaken only by those organs which have jurisdiction over the enterprises. Regarding the statements required in lines 37 to 39 concerning the number of employees, reference is made to the explanations by the Ministry of Trade and Supply, pp 9 and 10.

#### Concerning the Financial Report -- Wholesale Trade -- Part II

This part also presents cumulative figures from the beginning of the year. Reference is made to the explanations by the Ministry of Trade and Supply, pp 11-13. Also, the following peculiarities are pointed out:

- a. There has been no standardization to date of the commodity turnover of the wholesale trade office for foodstuffs. For this reason the average inventory, both planned (column 6), as well as actual (column 11), is obtained through the following formula:

$$\frac{\text{Original inventory} + \text{Final inventory for the current month}}{2}$$

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- b. The wholesale trade offices for industrial goods show the average values of the previous month, which have to be computed according to the standardization method, as actual inventories in column 11. The planned average inventory is taken from the commodity financing plan. No entry is made in column 5, since no planned final inventory has been established for enterprises which work with a standardized commodity turnover. However, the final inventories are reported in the actual column (column 10).
- c. The wholesale trade offices for foodstuffs and for industrial goods make no entries on line 13.
- d. Line 15 is filled in only by the wholesale trade offices for industrial goods. The values inserted are sub-items of line 14; this means that the goods which have not yet been unpacked are also included in the items entered under returns on lines 1 to 12. Changes in the original and final inventory of the goods which have not yet been unpacked will be reported under "Commodities Received" ("Warenzulieferungen"), (column 3 and/or 7), as plus or minus values, both planned as well as actual.
- e. Line 16, "Goods in Transit," will be filled out only by wholesale trade offices for foodstuffs. Goods designated as in transit are those for which the enterprise has already been billed, but which have not yet been received. The statement in "d." above, concerning changes in the original and the final inventory, applies also in this case.
- f. Only those goods which are financed by the German Bank of Issue through seasonal loans are included as seasonal goods in the balancing of the commodity financing plan (line 18).  
  
Seasonal goods are those which are produced on a continuing basis, but which are sold by the trade at certain periods only (ice skates), or goods which are offered by the trade at all times, but which are produced only at certain times (sugar, canned vegetables). Seasonal goods are broken down into constituent items (Davon- bzw. Darunterpositionen) in lines 18, 1 to 18, 4.
- g. Line 20, "Auxiliary Materials," shows the planned inventories of auxiliary materials in columns 5 and 6, and the actual inventories in columns 10 and 11. The following are reported as auxiliary materials: packing material, office supplies, fuel and motor fuel, etc.
- h. Contrary to the returns in lines 1 to 20, which are reported at the GAP/A\*price--line 21 shows the GAP/A values.
- i. The total turnover of the enterprises own business transactions is reported in columns 26 (plan) and 27 (actual). The returns in column 26 have to agree with the sum of the values listed in columns 4, 17, and 23; the returns in column 27 have to agree with the sum of the values of columns 8, 19, and 24. Furthermore, the returns in columns 26 and 27 have to agree with the Financial Report, Part I, line 2, column 3 and/or 5.
- k. The reporting dates of the preceding month have to be listed in columns 21 and 22.

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Concerning the Financial Report -- Wholesale Trade -- Part III

This part is not controlled and compiled by the Statistics Office; therefore, it will not receive detailed treatment.

Concerning the Financial Report -- Wholesale Trade -- Part IV

The enterprises submit a report every three months on form DIN A 3. A form DIN A 5 has been prepared for the compilation at a Kreis and/or Bezirk level. When the report data of the enterprises are checked, it should be noted that the following values of Part IV must agree with the data of Part I submitted on the same dates:

|    | Part   | Line    | Column | must agree with | Part | Line | Column |
|----|--|---------|--------|-----------------|------|------|--------|
| 1. | IV   | 6 and 7 | 21     | must agree with | I    | 8.1  | 3      |
| 2. | IV   | 6 and 7 | 23     | "               | I    | 8.1  | 5      |
| 3. | IV   | 13      | 21     | "               | I    | 8    | 3      |
| 4. | IV   | 13      | 23     | "               | I    | 8    | 5      |
| 5. | On the reverse side of Part IV, Breakdown of the Remaining Returns, the sum total of the remaining returns minus the sum total of the remaining expenditures must agree with Part I, line 9, column 5. |         |        |                 |      |      |        |

The enterprise report data at the Bezirk level is computed on form DIN A 5. In this case, only the total expenditures of the various areas are carried over

from the report sheetsto the compilation sheet

Line 13, Column 3

Line 1.1 Column 3

" 13, " 4

" 1.1 " 4

" 13, " 5

" 1.2 " 3

" 13, " 6

" 1.2 " 4

" 13, " 7

" 1.3 " 3

" 13, " 8

" 1.3 " 4

and so forth, up to

" 13, " 21

" 6 " 3

" 13, " 23

" 6 " 4

The breakdown of the types of expenditures on the compilation sheet represents the total of columns 21 and 23, lines 1-13, in the Actual (Ist) column (column 23), plus line 16 from the report data of the enterprises.

The fulfillment percentage which has to be reported on the compilation sheet (column 5) and the comparative business figures (betriebswirtschaftlichen Beziehungszahlen) (column 6) have to be computed according to the compilation, i.e., for column 5 per line.

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$$\frac{\text{value from column 4} \times 100}{\text{value from column 3}}$$

and for column 6:

$$\frac{\text{value from column 4, line 1, 1} \times 100}{\text{value from column 4, line 6}}$$

The reverse side of the compilation sheet lists the total of the breakdown of the remaining returns obtained from the report data of the enterprises.

#### Concerning the Financial Report -- Wholesale Trade -- Part VI and VII

Since Part VI is due only semi-annually (the first due date is 30 June 1958), and Part VII is prepared only after the end of 1958, the instructions for both these parts will be presented at a later date.

#### CONCLUSION

The above comments are essentially designed to supplement the guides to financial reporting by nationalized trade enterprises, which are contained in the Ordinances and communications of the Ministry of Trade and Supply, No. 3/1958. Like these guides, the supplements are intended to assist in Kreis offices in checking the accuracy of the figures contained in financial reports.

In order to make it easier for the employees to understand the economic relationship which is reflected in the financial report, several relations between the most important financial indexes in the field of trade are presented in conclusion; this is similar to that which has already been done for industry in detail, and for the construction industry in condensed form.

1. Trade establishments obtain the commodities at the industry sales price. Through their activities, such as transportation, storage, packing, weighing, etc., trade establishments add new value to the products. The expenditure of mechanical and live labor which accrues thereby, is covered by the trade margin, which is broken down into a wholesale trade margin. The trade margin should be estimated to the extent that, when working well, the enterprise can use it not only to cover its distribution costs, but also defray therefrom the necessary contributions to the state budget in the form of the trade tax, and realize its planned profits. (However, HO Kreis enterprises for foodstuffs frequently are barely able to cover their expenses from the trade margin.)
2. Since the trade margin is related to the product on the one hand, and the distribution costs have to be covered by the trade margin on the other, trade enterprises have a material interest in improving their work. They benefit directly by an increase in turnover and a reduction in distribution costs, since this increases their net income.
3. Distribution costs in trade correspond to prime costs in industry. However, they differ from the latter in that they do not all arise out of production processes since trade, in addition to its productive functions, also has to fulfill tasks which are inherent in the composition of the commodity traded and its related money economy. In the socialist system, the share of such tasks in the distribution costs is relatively small, but it will still have to be reduced further. However, separate accounting of circulation costs presents considerable difficulties, since the work of a large number of persons employed in trade combines both productive and non-productive operations. This is also one of the reasons why the financial report contains no corresponding breakdown of distribution costs.

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4. All of the factors mentioned previously affect enterprise returns. Since the absolute amount of the trade margin depends on the turnover volume, the amount of the returns is determined by three factors: turnover volume, trade margin, and distribution costs.

The larger the turnover volume, the higher is the absolute amount of the trade margin and, consequently, the returns. At the same time, as distribution costs drop, returns rise in direct proportion.

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